

REPORT TO

MISSOURI TAX CREDIT
REVIEW COMMISSION

October 19, 2010

Presented by: The Social Programs/Contributions Credit Subcommittee (SC)

The SC was asked to review and make recommendations concerning sixteen Missouri Tax Credit Programs (see attached). Although each program is unique, the common thread is they serve vulnerable or at risk Missourians. In most cases these services are provided through not-for-profit community based (or statewide) organizations. Tax credits are used to incent private donations to these organizations. In most cases these private donations provide at least \$2 of donations for each \$1 of credit. The effect of this “credit leverage” is to relieve or supplement state support. The committee believes that the organizations provide important and necessary services to Missourians and that the use of credits to incent private donations is appropriate and effective. However, we believe there are changes which can improve the credit program while reducing state costs and/or expanding services.

We recommend the following:

SUNSET ALL PROGRAMS

Social contribution tax credits were enacted with the best of intentions. In most cases, such programs are highly effective and beneficial to the State. However, some programs have not provided a meaningful impact despite the best of intentions. Recognizing that needs change over time and removing even ineffective legislation is difficult, we believe “sunsetting” every five to ten years is appropriate for all programs (currently about half of the programs have sunset provisions). We further believe that the discipline of renewing the program can lead to program improvements.

IMPACT

We believe the social contribution tax credit programs should be retained. However, we question the impact of several programs, specifically:

- The Family Development Account Tax Credit Program
Originally allocated \$4.0 annually the cap was recently lowered to \$300,000. This year approximately ten organizations will use \$25,000.
- Healthcare Access Fund
Administrative confusion and program design has caused this credit not to be used. No credits have been issued since the program inception in 2007.
- Special Needs Adoption and Children in Crisis

Credits are available for adoption of Missouri and international children. We question using credits for international adoptions. The use of credits for international adoptions reduces funding for Children in Crisis.

- Small Programs

There are several programs which are worthy but have limited impact – Commercial and Residential Disabled Access and Public Safety Surviving Spouse.

CREDIT VALUE

Currently, contribution credits are valued at either 70% (rural), 50% (non-rural) or 30% (certain YOP credits). Although it is not possible to calculate the value of credits to each donor, a person in the highest tax bracket, or a profitable Missouri corporation would have an after tax cost for a tax credit eligible contribution of approximately 15-cents/\$ for a 70% credit and approximately 30-cents/\$ for a 50% credit. We believe that private contributions can be encouraged with lower credit values; as an example, rural credits 50% and non-rural credits 35%. This could lower the per project cost to the state and still provide significant inducement to the private donor. This creates an increased efficiency for the tool by accomplishing the same projects with more private investment and less public subsidy.

INCREASE DONOR POOL

- Conform and Broaden Definition of Taxpayer

There are significant differences in the definition of “taxpayer” among various tax credit programs. To offset the possible loss of private matching donations that might occur as a result of lowering credit values, we recommend broadening and conforming all definitions to allow for additional donors to participate.

- Transferability

Allow all tax credits to be transferable, thus increasing the donor pool and helping offset any loss due to the reduction in credit value. Transferability will allow contributions from non-profit foundations and from out-of-state contributors, along with providing incentives to Missourians who do not have a state tax liability.

- Individual Limits

Allow an elimination or increase in “per contribution” limits to offset any loss due to the reduction in credit value thus allowing larger gifts.

TRANSFER CHARGE

Reduce the value of a transferred credit to save state funds. This should not materially reduce contributions from tax exempt donors or Missourians without a tax liability. As an example, a transferable credit could be redeemable at 90% of its value; i.e., a 50% credit is worth 45%.

OVERSIGHT

By statute, some programs are subject to significant monitoring, while others are not. We believe that authorizing statutes should provide each department with effective oversight authority and oversight tools for use in the administration of credits.

Tax credits are an effective tool for the public sector to involve private donors. Properly used they can encourage private participation in public responsibilities. The leverage factor is well beyond \$2+ for every \$1 of credit. Credits encourage personal commitment of both money and time.

We recognize that our charge is to reduce the cost of tax credits to the State and we have suggested ways to accomplish this with minimal impact upon vulnerable and at risk populations. However, we do not believe social contribution tax credits are a material issue in the states concerns about the amount and growth of tax credits. Other credits are causing these concerns. Rather we believe that we can increase the benefit of the social tax credits by lowering their value, maintaining the program caps and increasing the pool of potential donors. In this way private donations would increase without additional cost to the State; i.e., greater “credit leverage” and higher ROI to the State. The State will economically benefit more by a larger private contribution base for these needed social programs, as per force, the State will not have to add personnel to provide these services. Such a program would be (1) expense neutral to the State, (2) expand social programs to vulnerable populations, and (3) increase employment and capital projects. We look forward to discussing these recommendations with the commission.

Senator Jolie Justus
Bill Hall
Co-Chairs

Members:
Jim Anderson, Luana Gifford, Melissa Randol, Shannon Weber

Attachments:

- List of Credit Programs

SOCIAL PROGRAMS - CONTRIBUTION

Disabled Access – Small Business

Domestic Violence Shelter

Family Development Account

Food Pantry Tax Credit

Health Care Access Fund

Homestead Preservation (expired)

Maternity Homes

Neighborhood Assistance Program

Peace Officer Surviving Spouse Tax Credit

Pregnancy Resource Center

Residential Dwelling Access

Residential Treatment Agency

Senior Citizens Property Tax Credit (not reviewed)

Shared Care

Special Needs Adoption / Children in Crisis (CIC)

Youth Opportunities